

### 3. Analyzing leadership decisions

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#### *Abstract*

In this chapter it is pointed out that leaders who make decisions normally rely on both their intuition and their analytical thinking. Modern research shows that intuitive thinking has the potential to support the analytical, if used properly. Leaders must therefore be aware of the possibilities and limitations of intuition. Fresh thinking and innovation are key elements in leadership analysis, thus creative problem-solving is an important complement to traditional leadership thinking. Creative leaders work extensively with both intuition and logic. They also often work with metaphors, analogies, images and imagination to create dynamism in the analysis of a problem. Many leaders come in daily contact with problems that are not necessarily self-generated. It is therefore important that they have the opportunity to take an outside perspective on the situation. They must be able to define the problems which are of strategic importance for the activity. Leaders should not allow themselves to be stressed too much by various everyday problems, but be aware that they usually cannot just ignore them. After delineating a problem a leader should think through what trials ought to be conducted to test a given hypothesis about reality. This can be done by showing how different problems are related to each other. When analyzing various problems it is useful to clarify what kinds of decisions they relate to. Some decisions must be made directly, while others can be postponed. Some decisions are reversible in nature while others are irrevocable.

#### *Intuition and logic*

Research shows that one side of our brain controls emotions, intuition and creativity, while the other half is the centre of logic, language, math and analysis. Most of us have a side that dominates. However, this does not mean that either one of us is either an intuitive decision-maker who decides creatively and spontaneously or a logical decision-maker who works with logics and facts. Regardless of which side that dominates a decision-maker, a balance between the two faculties should always be sought after. It is important for leaders to be able to evaluate their own decision-making capacity and try to improve it. Many times it is easier to gain sympathy for arguments if you generally argue on the basis of logic and facts rather than on the basis of emotion. It is therefore important for leaders to be able to frame their intuitively developed options in an analytical language dress. Intuition may be misleading

when emotional memories are too salient. Then it is usual that the relevant information that managers have access to do not have a chance to influence the assessments. Intuitive decisions also tend to fail in areas where leaders have no or limited experience. *It is important to emphasize that it is often difficult for leaders to transfer the intuition that has emerged in a particular area to another.*

It has been shown that time-pressed leaders often use so-called intuitive simplification rules, in order to make it relatively easy to manage a complex environment. By using these simple rules leaders are often able to produce correct or partially correct judgments. Leaders simply must be able to simplify decision-making in a lot of situations. However, it is relatively common that leaders use the rules without really being aware of them. Then it is easy to come astray. The conclusion is that leaders must be aware of the potential of different simplification rules. They can then decide when and how these should be used. (Tversky & Kahneman, 1974).

For example, in their decisions leaders are influenced by an event's *availability* in mind. An event that is lively and gives rise to emotions is more available from our memory than an event that does not give rise to emotions. Highly frequent events are also more available in memory, as well as events that are highly covered in the media. Leaders can use the availability rule for strategic purposes. However, they must first be aware of how the rule works. What are the factors which are highlighted? What are the factors which are ignored? Leaders must be aware of these often unconscious processes (Blake, 2008). It is also good if they continually keep account of their decisions in order to calibrate their judgments. Leaders are also influenced in their decisions of an event's *representativeness*. We therefore speak of an intuitively based *representativeness rule*. In addition, there is also an intuitively based *anchoring and adjustment rule*. If a leader is predicting an employee's performance during a year, he or she is often doing that on the basis of what one knows from experience about the group to which the employee belongs. If a leader is predicting a product's success in the market for a year, this is often done on the basis of past successes and failures. There is also an impact on the leader's decision from how an event is anchored back in time. For example, if a leader visits an interesting technical exhibition, it is easy to conclude that there you can go back if you want to get new good impressions.

Intuitive decisions are also affected by various types of framing. A frame is a stable coherent cognitive structure that organizes and simplifies the complex reality that a leader

operates in (Schoemaker & Russo, 2001; Kuvaas & Selart, 2004). Many frames are memory-based and usually activated automatically. There are mainly three types:

1. Problem frames (used to generate solutions).
2. Decision frames (used to choose between alternatives).
3. Schematic frames (they are deeper mental structures that have been developed through years of experience, for instance, mental models, Senge, 1990 ).

Kahneman and Tversky (1979) have demonstrated the importance of decision frames. They revealed that small changes in the surface structure of a decision setting have great importance for the decision made. *What they found was that people are risk averse when faced with gains situations while they are risk-seekers when they face loss situations. It all depends on the frame of the decision.* For instance, let's say a leader is able to choose between two personal bonus alternatives. The first offers \$ 1000 with a 100% certainty while the other offers \$ 2000 with a 50% certainty. In this case the leader is likely to choose the riskless alternative. But if it the same amounts for some reasons were due to be deducted from the personal salary at a specific occasion, the leader would most likely have chosen the risky alternative. The reason is that from a psychological point of view, people in general have great difficulties to accept safe losses.

Emotions also play an important role in the leader's intuitive decision. Most judgments are preceded by an affective or emotional valuation, which takes place before conscious reasoning arises (Kahneman, 2003). Despite that these emotional valuations are not conscious they play an important role in the individual decision-making process (Slovic, Finucane, Peters, & MacGregor, 2002). Many times they mean more for the decision outcome than the conscious analytical processes. Leaders who are happy tend to overestimate the likelihood of positive outcomes, while those who find themselves in a bad mood often overestimate the likelihood of the negative ones (Schwarz, 2000; Hambrick, Finkelstein, & Mooney, 2005; Ganster, 2005; Clor, Wyer, Dienes , et al 2001; Daniels, 2008).

It is therefore important to remember that emotional stability is needed if affective feelings are to bring something to the decision. Positive emotions normally signal that the environmental situation is under control and that one can fall back on routine and existing knowledge. However, negative emotions signal that this is not so and that environmental

factors must be examined carefully (Elsbach & Barr, 1999). Experienced leaders who are aware of this fact can make use of their emotions as valuable information in the decision situation. However, one should be aware that various negative emotions cannot be interpreted as having an equal impact (Lerner, Small, & Loewenstein, 2004). Research shows that affective simplification rules based on intuition are more used when leaders have much to do and are under time pressure (Gilbert, 2002). It is important for leaders to note that emotions can serve as a valuable guide for their decisions, but that they also may prevent optimal decisions from being made. Therefore, some researchers argue that leaders must develop strategies to avoid too many emotions influencing the process (Luce, Payne, & Bettman, 2001).

Many decision researchers have been negative to the role of intuition. They look at intuition as a shortcoming causing errors and shortcomings in the decision. The process is admittedly fast and the results acceptable. However, it rarely leads to the optimal decisions. Others are of the opinion that errors can occur due to both intuition and logical thinking (Payne, Bettman, & Johnson, 1992). It is common to make mistakes when we reason intuitively. But these errors are usually less severe compared to the errors that arise as a result of logical thinking. *One can therefore argue that a good decision is characterized by a systematic information search, analysis and good intuition* (Shiloh & Rotem, 1994). Some scientists believe that intuitive decisions should not be confused with chance, impulsive and emotionally driven decisions (Eneroth, 1992). On the contrary, it is assumed that the leader who makes intuitive decisions is well informed and that he or she has a great familiarity with the issues. This means that the decision maker has repeatedly been in the situation in a maximum number of contexts.

Some decision situations are more appealing than others to intuition (Agor, 1991). Such situations are usually characterized by a high level of risk and uncertainty level. Other characteristics include little previous precedent, the existence of several plausible solutions, the limitation of time, the limitation of valuable available facts, and muddy cause-and-effect relationships (see also Sadler-Smith, 2008). The decision-maker has in addition often either access to too little or too much information. If the availability of data is limited and the facts we have at hand are difficult to interpret, intuition can help us. With its help, we can create a synthesis of the fragmented data and experience, thereby creating an overall picture. Such a picture, in turn, often generates some kind of aha experience. Intuition can then be more

effective in certain situations compared to more systematic forms of assessment. With the help of intuition, we can very quickly discover that a problem exists, as compared with traditional analysis (Isenberg, 1991). Leaders can therefore use intuition as a tool when exploring the unknown or the future. With the help of intuition they can generate unusual scenarios and new options. This can be accomplished in a way that would be impossible using traditional data analysis. Intuition can also be used in the final stages of an information process as a help to synthesis and integration. There is research showing that leaders often have to look away from rational decision-making and rely on their intuition (Klein, 1998, 2003). For instance, Isenberg (1984) has demonstrated how leaders make use of intuition to solve problems in everyday life. He identified five different ways in which leaders made use of intuition:

1. To identify when a problem exists (to smell a problem).
2. To implement quickly learned procedures (just carry on)
3. To piece together various bits of information into a meaningful creative design (creativity)
4. To make a test of logical analysis based on gut feeling (this is not right)
5. To bypass logical analysis directly in favor of a plausible solution (this will not work)

To make decisions is about searching for alternatives, information and goals. The art of decision-making is therefore quite a lot about the art of determining when it is time to stop searching for information (Gigerenzer et al, 1999). Such a stop may be because we either think of an alternative or recognize it. Leaders can often use their intuitive reasoning ability to quickly reach the right decision. You do not always engage in a very time-consuming hunt for the best option, driven by rational analysis. In many cases it is sufficient to identify an alternative that is "good enough". This is particularly important when we talk about operational leadership decisions. Note that social intelligence, for example, relies on powerful intuitive tools such as trust, deception, identification, rumor, wishful thinking, and cooperation (Gigerenzer, 2007). *The trick is not to amass information, but to discard it, that is, to know intuitively what one doesn't need to know* (Gigerenzer, 2007). Intuitive decisions usually work best in case they have been made many times before in familiar contexts, allow fast feedback, and involve a low cost. Then they can be made both quickly and accurately. Research also shows that intuitive decisions perform better in unstructured decision contexts

than what rational analysis does (Dane & Pratt, 2007; Klein, 2003; McMackin & Slovic, 2000; Selart, Johansen, Holmesland & Grønhaug, 2008 ).

Nevertheless, intuition also has a bearing on strategic decisions. For instance, it has been found that the use of intuition in strategic decision making is much greater in unstable business environments (computing) than in such environments that may be labeled stable (utilities) or moderately stable (banking) (Khatri & Ng, 2000). A conclusion that can be made is that decision making in uncertain environments needs to be less routine than in stable situations. This means that decision makers under uncertainty have to shift away from treating problems as structured and resolvable using standard procedures. As a consequence, decision making becomes less analytical and much more judgmental, with a reliance upon informed intuitions (Dane & Pratt, 2007; see also Sadler-Smith, 2008, for a discussion).

One way to minimize the risks of intuitive decisions is to try to apply a so-called outside perspective. This is when leaders mentally try to distance themselves from the specific situation. You can also create a class of decisions to which the problem is addressed (Kahneman & Lovallo, 1993). It has been shown that leaders who have the ability to take an outside perspective are less overconfident in relation to their general knowledge, time use and perception of entrepreneurial success (Kahneman & Lovallo, 1993; Cooper, Woo, & Dunkel Berg, 1988). A leader could also try to imagine what would have happened if he or she had made the opposite decision. This has been shown to have a positive effect on the reduction of overconfidence and other types of decision errors (Larrick, 2004; Mussweiler, Strack, & Pfeiffer, 2000). An additional method which has proved successful is to create a "decision environment" that minimizes the risks of intuitive decision-making (Thaler & Sunstein, 2008; Ritov & Baron, 1992).

As a leader you can also do a lot to avoid being influenced by different frames against your own will. According to Schoemaker and Russo, there are five basic strategies that can be applied:

1. To change the metaphor and thus regain control of the frame.
2. To challenge others' points of reference.
3. To extend the frame.

4. To construct new frames for new situations.

5. To try to influence others' frames.

In addition, it is useful for leaders to be brutally realistic in their attitude. Leaders must continually collect contradictory evidence. One can for example ask other people what they think and feel, especially those who one tends to disagree with. You will not always like the answers you get. No matter how embarrassing they are, leaders can use them to develop their frames.

It is also important to recognize that other people often have emotional connections to their frames, particularly if they are linked to core values. People generally need a lot of time to adapt. One should also remember that complex issues can rarely be solved by using a single frame. Leaders are responsible for that their employees use appropriate and robust frames (Schoemaker & Russo, 2001). The higher a leader is in an organization, the more time should be invested in creating frames around the key issues. The top leaders must make sure that employees throughout the organization are framing the issues in an intelligent manner. Leaders must also ensure that the dominant frames used by the organization are adequate and updated. Complex decisions must be evaluated using many different methods of framing.

For that to happen, the leaders must recognize the limitations of their own frames and appreciate the value of others' perspectives. They must learn to recognize and challenge other people's frames. It is also important that leaders can master the techniques that will help others accept better frames more easily. It is here that management differs from leadership. Managers operate within an existing frame and do what has to be done. Leaders ask deeper questions, provoke new ideas and operate across different frames. He or she moves the organization from an old to a new setting. Effective leaders challenge the old frames, visualize new ones and contrast old frames with new ones (Schoemaker & Russo, 2001).

### *Creative Problem Solving*

Successful leaders are often willing to experiment actively with innovative ways of solving their problems. Such an approach can be seen as an alternative to spending lots of time studying them. These experiments often take place on a small scale and at low cost. Many types of actions take place despite the leader not believing that they are the best solutions to a

given problem. Rather, limited action is sometimes the only way to create an adequate understanding of the problem. If a leader is to achieve success with this kind of approach it may be useful to apply various forms of creative problem-solving. These forms are to some extent based on traditional analysis of the problem. But they are also based on leaders being able to create new problem definitions. This is done through the use of metaphors, images, imagination and provocation. Basically, leaders can use their creativity either in order to accept or reject an existing paradigm. In the accepting case, leaders usually work with methods such as replication, redefinition or forward incrementation. In the rejecting case, they are more apt to take methods like redirection, re-initiation or synthesis into account.

Creative people often use a lot of intuition (Policastro, 1995). For example, Einstein argued many times that intuition meant more than logical thinking for the scientific discoveries he made. The French mathematician Henri Poincaré has made similar reflections. He indicated that intuition was the most basic instrument for all creative work. It was through this that he was able to recognize new and valuable ideas and separate them from the large amount of uninteresting ideas. Another feature is that creative people have a relatively high tolerance for uncertainty. An example is Antoine Lavoisier, who founded organic chemistry. His research was marked by a very long period of inconsistent results when it came down to determine the composition of air. The reason for this was a lack of metering equipment. But he did not draw any fast conclusions. His notebooks indicate that he was rather inclined to accept this uncertainty as an integral part of his creative work (Holmes, 1985). The ability to live with, and even capitalize on, high levels of uncertainty and apparent inconsistency, seems to be a core component of the creative personality (Lubart & Sternberg, 1995, Sternberg & Lubart, 1991, 1995; Stoycheva & Lubart, 2001). Another characteristic is that creative people are largely driven by internal rather than external motivation (Amabile, 1996). This means that they enjoy working with new and complex tasks and see this as a reward in itself. They don't need external rewards in the form of bonuses, words of appreciation, etc. to motivate themselves to create. Instead, they are driven by the interesting features of the tasks and see those as stimulating challenges

Three basic functions work together when we think and reason, namely analysis, synthesis and evaluation. An *analysis* is a means to disassemble a whole into its component parts, to dissect, if you like. A *synthesis* means the opposite, namely to build a complex from a number of parts, creating concepts, ideas and theories. A *valuation* is ultimately to measure the



benefit in any way, particularly in relation to other things. To value is closely related to creative thinking because the concept of creativity is tied to valuation in many ways. To name something creative means that you give it external or internal value. The interesting thing is that our subconscious has the ability to analyze, synthesize and evaluate, without us being aware of it. The subconscious sometimes "announces" its record of such a process at the conscious level. This could almost be likened to some form of reporting. It is during this reporting that many may feel joy just before they are about to make a discovery. This is an indication of that they are on the right track. The human creative process may thus be seen as a bucket thrown down into the subconscious bringing up something that one normally cannot reach. This finding is then mixed with normal experience and something is created that can be likened to a work of art (Adair, 2007).

Creative problem solving processes are characterized by leaders exploring many possible solutions on a general level. Leaders are also interested in the paths leading to the solutions, and what conclusions can be drawn. These processes have both a divergent and a convergent phase. It is important not to draw conclusions too early in the process, but to explore all the potential of the presented material. The basic principle is based on free association. This means that no valuation is made, and that all possible and impossible ideas are welcomed and included in the process. The aim is to provide new and useful solutions. At the end of the process, the positive and negative aspects of the new solutions are generally defined and evaluated. At this point, attempts are often made to find possible ways to overcome the negative aspects (Strand, 2007).

Individuals can often be more productive in generating new ideas compared to groups (Sinclair, 1992). The creative leader is characterized by the following features:

1. A cognitive flexibility.
2. An ability to understand the complexity.
3. An ability to keep the probability open as long as possible.
4. An attitude that is not judicial.

A leader who works well in the creative process has the ability to use broad categories, has a good memory, and can relatively easily break behavioral patterns that apparently seem to be fixed.

An important method is based on analogy. Leaders can for example study nature if they want to initiate a new innovation. It was by studying how bats navigate that scientists were able to invent the radar. Also, the design of doors to the aircraft industry has been inspired by how mussels open and close themselves. However, leaders can also make use of analogies in a more subtle way. It is said that the founder of Honda was not satisfied with the design of one of their motorcycle engines. He then went to Kyoto and visited various Buddhist temples. By carefully studying the statues of Buddha, he gained inspiration for how the new design of the engine would look like (Adair, 2007). Analogies also serve a purpose when it comes to selling a new idea to others. For example, a product or service can be coined “the Rolls Royce of X”.

Another method is based on incremental analysis. Leaders are often faced with problems in which they either have to climb to more general levels or climb down into more specific ones. It's almost like a ladder you are on (Proctor, 1999). At the top of the ladder are the strategic and conceptual levels. In the middle you will find the operational levels, and at the bottom, the most immediate problems to be solved urgently. By asking the question "why?" you move up the ladder and by asking "how?" you move down. A practical example of the three levels can be found in the reasoning of a sales director:

1. How do we improve our sales techniques? (high level).
2. How can we provide sales training in the best way? (middle).
3. How can we produce a manual for our sales people ? (low level).

Leaders can also make use of lateral thinking (de Bono, 1971) This means that they consider problems from new perspectives in order to create more innovative solutions and be able to distance themselves from conventional ideas. Contrary to logical and vertical thinking, there is no paradigm we must follow. Vertical thinking is based on continuity, while the lateral is structured around the discontinuity. People in general are generally more accustomed to thinking vertically and are unaccustomed to dealing with illogical thought patterns. However, one could practice up by looking at a problem from several angles. New ideas, which not

only represent variants of the old one, can be developed. The new ideas may seem to be impractical at first, but if you examine them properly you will often find a useful solution.

Another method is to make the known unknown and the unknown known in order to get away from habitual thought patterns (Gordon, 1961; Prince, 1970). The aim is to discern links between the new and what we already understand. The method is particularly useful for identifying and developing ideas. The analogies used may be personal, direct, symbolic, or based on fantasy. A practical example of when you make the unknown familiar is represented by the following story: On a course in leadership for university teachers the distinction between leadership and management was explained. Many of the students felt that they were faced with many new and difficult concepts. A chemistry professor suddenly seized the opportunity to use the familiar to explain the unknown. Many chemical processes are characterized by being slow, or completely stagnant, if not a catalyst is added. He said that leadership could be seen as a sort of catalyst for an organizational process. With the help of management the problem could be diagnosed (Adair, 2007).

A practical example of when you make the known unknown is represented by the following story: A Scandinavian manufacturer of building slabs for the construction industry saw a TV program about Japanese culture. He had had problems with the sale of the slabs recently. The program revealed that according to the Japanese tradition people were sitting down while eating at festive occasions. The factory owner had an idea. He asked himself: Perhaps I could sell my building slabs to Japan to be used as foundations for traditional dinners. The idea was realized on a smaller scale and was almost immediately a success. The slabs sold better than they had ever done before. The Japanese households also wanted these slabs to be stamped with the correct name tag before entering their living rooms. What the factory owner in fact had done was to make the known unknown. This was done by questioning whether he necessarily had to sell his building slabs to the construction industry, which he always had done previously.

### *To take risks and be systematic*

Risk-taking is not something that is only associated with intuition since every decision contains some form of risk. This means that even people who are completely logical in their thinking are taking risks. The difference is that intuitive thinkers back an alternative that they believe is safe with arguments, while logical thinkers calculate all the odds. In both cases, it

is important to avoid decisions that are characterized by too much chance. What characterizes effective leaders is that they are often willing to take responsibility for problems. They are also quite prone to rely on their intuition, even if this sometimes lead to errors due to inadequate data (Isenberg, 1984). In other words, it's positive if a leader demonstrates traits such as aggressiveness, risk seeking and the need for achieving results. However, these personality traits have to be rooted in business experience. Otherwise, they may be even dangerous for the organization. Because of this new leaders recruited from MBA programs often fail. They simply do not have the business experience and network of contacts needed.

Leaders typically define risk from subjective starting points, with a focus on the negative rather than on the positive outcomes (Shapira, 1994). It is therefore not unusual that leaders understand a risky situation better with the help of their intuition compared to if they were to use statistical tables (Shapira, 1994). In addition, they find it difficult to understand risk when it is expressed by means of percentages (Gigerenzer & Hoffrage, 1995). It is simply easier to build up a mental scenario of a worst possible outcome from their business experience, compared to calculating its risk. The self-image among leaders is that they take more risks than they actually do in reality (March & Shapira, 1987). They also believe that they learn more from risky decisions than is actually the case.

How managers perceive risk depends on a variety of individual and social processes. Many times, it is unclear how these processes interact. Many incidents are neglected until leaders pay attention to them and communicate them to others. In this communication process the information passes employees who transforms it through "raising or lowering the volume" (Kasperson, Kasperson, Pidgeon, & Slovic, 2003; Maule, 2008).

*Regardless of what decision-making style a leader has, it is advantageous to be systematic.* Systematic methods allow that as many angles as possible of the decision are concerned, that the necessary information is sought after, and that all options are evaluated and compared. They also help identify difficulties and consider consequences of the alternatives. A systematic approach has the further advantage that it enables the decision maker to develop a logical and effective plan of action. Such a plan is often easy to explain to colleagues and clients who may be affected by it.

### *Identifying problems*

Research shows that leaders in general have to deal with all sorts of problems and that this also applies to top leaders (McCall & Kaplan, 1990). Leaders are confronted daily with a stream of routine and new problems, which often have their origin in the environment (Browne, 1993). This means that leaders face many different problems. These are often interrelated. The actions that leaders take in relation to a problem must, therefore, often be related to other problems. It is therefore important to look for relationships between problems, rather than assuming that the problems are independent of each other (Isenberg, 1984). By relating problems to each other and to informal strategic objectives leaders improve their ability to solve several problems at the same time. A prerequisite for this is that leaders are flexible and open in their attitude to how a problem is defined. This means that leaders have the ability to actively evaluate various definitions of the same problem.

Decisions that tend to only address a specific part of a problem often fail. Any decision affects one or more components of a complex business system. It is therefore important that leaders can determine whether or not the problem in question concerns the whole company or a single event. Let's say a department is characterized by too many unresolved negative conflicts. As a practical measure can in such a case be to relocate one of the employees that is considered central to the problem. However, it may be that the root of the problem lies in poor leadership or in a poor recruitment policy. The taken measure has in such a case not solved the problem in the real sense. Leaders must therefore be inclined to carry out research and dig deep into why a particular decision is required. This will often lead to good results. There are decision analysts who argue that leaders should not spend too much time on analyzing the problems, but instead push for development of objectives (Nutt, 2002). The reason is that it is relatively easy to get caught in apparent problems. To start from a number of objectives instead opens up for new opportunities. It also makes it easier for decision makers to move away from the stereotypical responses and traditional ways of thinking.

The lower down the scale you are as a manager and the smaller the organization, the more likely it is that you do not have to look for problems. They often make themselves present, perhaps by someone knocking on the door. The problems we receive are often either well-defined and neatly packaged or very poorly defined. It is relatively common for middle managers to view or define problems as simple. Perhaps only a part of the problem has been presented and it is mistaken for the whole problem. Such simplifications can lead to simplified and rapid responses. Leaders sometimes choose to define problems in ways that make them suitable for

solutions already existing. Resources that have not been allocated are examples of solutions looking for a problem. A leader may relatively easily define a problem whose quick and easy solution is to budget some non-allocated resources to it. Of course, there are many cases in which a leader perceives that the problem is complex, but still chooses to focus on the solution options that match the simple problems. The reasons may be that the risk of failure is small, the cost of a bad decision is low, or that the decision can be reversed at a later date.

New problems emerge every day, and many of these are made worse in case leaders ignore them. It is therefore important for leaders to identify problems early and correcting them in the bud. This is not only something that is important for the leader's daily decision making. Such an approach is also important when it comes to dealing with crises. However, it may sometimes be beneficial to wait before solving an identified problem, for various reasons. It may for example be due to that several groups are involved in a process spanning several years, and that no crisis arises (Brown, 1993). In such a process it is common that a problem is addressed and recognized several times, at regular intervals.

For many leaders it is quite natural to consider a problem as something they are not part of. But in many organizational decisions leaders themselves play an important role, as manifested, for example, by their leadership style. It is therefore important to consider your own role as a leader in certain types of problems (Torbert, 1987; McCall & Kaplan, 1990). It must be clear that different managers in an organization have a tendency to define problems from their own perspective and areas of expertise. The definition of a problem varies with those involved in, or interested in, the situation. What is perceived as a problem in one part of the organization may not be perceived in the same way in another. Therefore, a financial manager, a marketing manager and an IT manager will not define their problems in the same way (Jennings & Wattam, (1994). Unfortunately, it often happens that leaders cannot agree on how problems should be defined, regardless of how much time they spend on diagnosing and analyzing them (Browne, 1993).

### *Preconditions for effective problem solving*

*Successful leaders are aware they must dig in order to obtain relevant information. They therefore seek the company of supervisors, suppliers, customers, competitors or bankers. Their*

own hierarchy is not always the most relevant information channel. Conversations are usually not only focused on a given problem, but range over a variety of topics. The leader can be seen as a sponge that absorbs the relevant information. Two activities are essential: to listen and to ask questions. When the leader receives responses, the focus is usually on both the sender's verbal and nonverbal communication.

*Another important factor is to know your own business.* This means that you need to know as much as possible about your job and the area you work within. Often, this implies deep knowledge about the people you work with (employees, suppliers, customers, etc.). This type of knowledge is often gained by leaders who have worked many years within the same industry. But it is also a product of the leader's intense efforts to learn everything worthwhile. It is therefore very important for a newly appointed leader to get to know the industry and the people as quickly as possible (Gabarró, 1985). Effective leaders do not spend too much time drilling for all things that can go wrong or for any human weaknesses. They go further, more intuitively, searching for new problems to solve. These leaders make many mistakes, but can often quickly parry them and learn from them. What is referred to as "intuition" by this type of leader often has a behavioral basis. The way in which leaders of this kind gathers, processes, and compiles information governs the way they define their problems (McCall & Kaplan, 1990).

Leaders must also be aware of the time limits when to make decisions. However, the quality of thinking and execution is more important than the time available. One should not rush the decision, but it is also important not to slow down. Timely decision-making arises when one considers having enough relevant information, and that all relevant issues have been addressed. Delays are only beneficial in case we need to gather more vital information or in case circumstances change and the problems must be re-evaluated. Time pressure may, paradoxically, often be positive. It can, under favorable circumstances, result in better focus and less number of options.

A leader who decides must learn to prioritize which factors are most important. Some factors are always more important than others in the process. To give each factor equal weight is only relevant in case they are equally important. This is rarely the case. As a leader, one has to divide the factors into categories. In the next step it is important to prioritize these categories accurately, and to allocate time so that the vital aspects of a decision are not rushed through and

that less important aspects are taking too much time.

When a leader is to make strategic decisions, it is important to begin by identifying the problems. Because of their weight, strategic problems often complicate the decision-making process. There are no ready solutions that are waiting for this kind of problem. Solutions must be developed, which take time and add to the complexity of decision-making. Strategic problems are also characterized by uncertainty and risk. One effect of uncertainty is that in order to obtain information and advice leaders must involve more people from their network into the decision-making process. In addition, uncertainty leads to that several criteria must be used in the evaluation of options. One effect of a high likelihood is that more analysis is required to understand the problem (McCall & Kaplan, 1990).

The first part of a strategic plan often focuses on defining positive aspects of a negative situation. In the next step it is important to be able to establish where the organization is positioned performance-wise. For example, what does the environment in which the organization operates look like? What are the comparative advantages of the organization and what are the external requirements? What is the price if you do not act? In case you discover performance gaps, it is important to thoroughly analyze the causes of these. When you are finished with this step the next one arrives. Where do you want the organization to be, and what decisions are required for it to get there? Here it is important to identify the contextual areas in which the organization has fallen short. Then the actions are analyzed with regard to what extent they are needed to fill the gaps. Such actions often imply:

1. To correct poor performance.
2. To meet customer requirements.
3. To remove the causes of various failures.

### *Defining a leadership decision*

A decision is characterized by a choice between several different options. It is the decision-maker who makes such a choice. The choice can be made directly, but usually the decision-maker is involved in a process that incorporates identification, analysis, evaluation, selection and planning. To arrive at a decision a leader must define the purpose of it, must clarify the options available, choose between options, and then transform the current option into action. To



discuss the problems with peers is often the best way to approach a decision. When people get together they often generate unexpected solutions. It is important that each option is examined carefully before a decision is made. Both the decisions and the decision making process are fundamental to all management processes. If you find that past decisions are still applicable you should take advantage of them.

A leader's decisions can be characterized by routine, but they can also be acute or strategic. Many decisions are characterized by routine. This implies that the same conditions recur and when they do it's wise to choose a tried and tested option. However, some situations present no history of successful decisions. In situations like these, leaders are forced to decide on the spot based on the events taking place. This type of emergency decision-making can often take up most of a leader's time. The most challenging and most important form of decision-making entails strategic choices. Here, the leader must decide on goals and convert them into specific plans and decisions. A good default might be to try to make long term decisions taking into account the short-term perspective. Decisions that are no longer relevant should be changed.

In order to reach a decision some kind of methodological thinking process will usually be needed. The first step is to identify the subject being addressed and to set priorities among the objectives. Through a situation analysis, it is possible to sort out all the options that, for practical reasons, are impossible to implement. A manageable number of alternatives will be left that must be evaluated in detail. Each option's pros and cons are carefully evaluated based on the ultimate goal. It is important that a leader also involve others in this process if he or she has not done it before. Finally, leaders must create a plan that shows exactly how the decision will be made, that is, which actions must be implemented. It is important to remember that the implications of every decision must be considered since these can be substantial. A leader must also be able to anticipate and prepare for any type of change that can occur in the situation. Leaders must always ask themselves what can go wrong when making a decision.

Usually such decisions involve problem solving of any kind, and leaders can come up with their responses on a variety of ways. Some solutions are based on facts and figures, while others are rooted in the insights that feel right. Some solutions have to be tested or simulated, while others work only in the short term. There are also examples of solutions that work without having some clear limitations.

Sometimes, the risk that a decision involves can be reduced by various conducted tests, either on the market or through simulation. Most decisions are characterized by some form of risk, and some decisions are riskier than others. An important issue for a leader is if it is financially riskier to continue with a project that proves to have some problems or to terminate it by a variety of measures. If you choose the latter, one can simulate the economic effects of these measures. In conclusion, it is important that the leader takes into account all possible outcomes when making decisions.

### *To delimit the problem*

To be able to delimit an analysis, a first step is to create a structure of the problem. Such a structure can be split into separate elements that do not overlap. It is important that no dimensions that are relevant to the problem are infringed. The next step is to create a model or a conceptual framework. There is no need to reinvent the wheel. The organization itself can often provide existing frameworks which should be used wherever possible. There are also examples of frameworks in the literature that reflect the result of other organizations' experience in structured problem solving (Rasiel & Friga, 2002).

The next step is to develop a hypothesis about what is the likely solution. Experience shows that the use of a hypothesis as a guiding principle for analytical and research work enhances the efficiency of decision-making. This is because it is many times easier to analyze the facts of a problem with the starting point to confirm or reject a hypothesis than to analyze all the facts divided into separate components. First, the hypothesis provides you with a map of problem resolution. It makes it easier to ask the right questions and making the correct analysis to arrive at an answer. Secondly, it entails a good assumption that it is easier to identify the blind track, and thus save time. A leader develops a hypothesis by drawing conclusions from the limited knowledge he or she has about the problem. This is achieved without doing too much additional research. After that the leader can spend an hour or two with his or her team to outline some possible solutions to the problem (Rasiel & Friga, 2002).

The final step is to arrive at what analyses should be conducted and what questions to be asked

to make the hypothesis confirmed or rejected. In this context, a so-called problem tree can be used as a method of presenting issues. Any problem can usually be broken up into sub-problems, which in turn can be cut up. A framework such as this will create a sort of bridge between the structure and the hypothesis (Rasiel & Friga, 2002).

### *To design the analysis*

Most companies rest on several legs in order to succeed, but one of these is usually more important than others. The challenge is therefore to identify the key drivers of the organization. When time and resources are limited, a leader often cannot afford to examine each factor in detail. It is therefore important that leaders focus on the factors that are most central to the problem when they design their analysis. It is often better to dig down to the core of the problem than to pick apart every single part. Leaders should from time to time ask themselves what they are trying to achieve. If what they want to reach does not fit into the overall picture, or does not make them come closer to their objectives, it is usually a waste of time. You have to work smarter, not harder. It is easy to analyze every aspect of a problem to death. But if an analysis carried out does not add any significant benefit to the problem-solving process, time is wasted (Rasiel & Friga, 2002).

*Once it is time to start designing the analysis intuition must be balanced against robust data.*

*The secret of achieving balance is to put quality over quantity.* Focused analysis anchored in a good problem definition is often more important than a variety of untargated analyses. One way to do the analysis more focused is to allow the hypothesis to determine the analysis on the basis of a problem tree. Another way is to start by thinking about the end result so that one does not deceive oneself into unnecessary analysis. You can also try to define the type of analysis that should not be implemented. This is a natural consequence of letting the hypothesis control analysis (Rasiel & Friga, 2002).

It is important to remember that the leadership of an organization is not an exact science. This means that you sometimes have to accept that leaders cannot achieve absolute precision in their models. By definition, strategic decisions involve a high degree of uncertainty. Leaders can many times spend a lot of time to improve the accuracy of their models (Montgomery, 1983). However, eventually they come to a point where diminishing marginal utility is taking place or

else you miss the market window. A practical approach is characterized by trying to get started as quickly as possible to create profit, and you can continue to work to improve the model in parallel over time. In some cases leaders are met with situations where a problem seems unsolvable. They should not despair. Many times they can successfully make use of analogies from, for example, competitors. This will in most cases throw some light on their own problem (Rasiel & Friga, 2002).

*The ability to make clear decisions in a timely manner constitutes an essential part of good leadership.* You have to be in control over decision-making. An important aspect of a decision, for example, is if it has to be made directly or can be postponed. However, different situations require different types of decisions. It is therefore important for leaders to learn about the implications of different types of decisions. A decision may, for example, be either reversible or irreversible in nature. A reversible decision can be changed completely, either before, during, or after it has been put into practice. An irreversible decision is taken only once and cannot be undone. An example of such a decision is a contract that has been signed. It could also involve a purchase or a sale of a business. A decision may also be experimental in nature. This means that the decision is not final until the leaders have analyzed the first results and they have proved to be satisfactory. A variant of this is to make sequential decisions in several steps based on how the process unfolds. Another variation is to make conditional decision, that is, to state that a decision is made given certain circumstances. One can also imagine that a decision is postponed until the time is deemed right.

## *Conclusions*

Leaders who make decisions are usually using both their intuition and their analytical thinking. Modern research shows that intuitive thinking has the potential to support the analytical one, if intuition is used properly. However, leaders must be aware of the possibilities and limitations. Since fresh thinking and innovation are key elements in any problem analysis, creative problem solving is an important complement to traditional and convergent thinking. Creative leaders are working extensively with both intuition and logic and have the special feature that they are continually nourished by their subconscious mind. They also work with a lot of metaphors, analogies, and images to create dynamics in the analysis of a problem.

Many leaders come in daily contact with problems that are not necessarily self-generated. It is therefore important that they have the opportunity to take an outside perspective on the situation and define the problems which are of strategic importance for the activity. They should not allow themselves to be stressed too much by various everyday problems. However, leaders must understand that everyday problems cannot be ignored. They will easily grow then. After delineating a problem leaders should think through what trials should be conducted to test a given hypothesis about reality. This can be done on the basis of a so-called problem tree that has been created, showing how different problems are related to each other. When analyzing various problems, it is important to make clear to what type of decision these relate. Some decisions must be made directly, while others can be postponed. Some decisions are reversible in nature while others are irreversible.

### *Checklist*

1. What are the pros and cons of thinking intuitively while making decisions?
2. How can you as a leader make use of intuition as a tool?
3. What characterize creative people?
4. Why can individuals many times be more productive than groups when it comes to producing ideas ?
5. What creative problem solving techniques can you as a leader use?
6. Why can it sometimes be difficult for leaders to define risk?
7. Do you as a leader always have to solve the problems as quickly as possible?
8. How do you as a leader best identify a problem?
9. What characterizes the effective problem solver?
10. What problems can you as a leader experience in defining a decision?
11. How can you as a leader delimit a problem?
12. What is important for you as a leader to consider when formulating your analysis?

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